

**REPORT OF THE AUDIT OF THE
FULTON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FULTON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Fulton County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash Balances decreased by \$236,029 from the beginning of the year, resulting in a cash surplus of \$2,103,028 as of June 30, 2002.

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$1,980,811. Future collections of \$2,430,800 are needed over the next 13 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$990,102 as of June 30, 2002. Future principal and interest payments of \$1,439,326 are needed to meet these obligations.

Report Comment:

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$124,004 To Protect Deposits

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Harold M. Garrison, Fulton County Judge/Executive
Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity balances arising from cash transactions of Fulton County Kentucky as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances, and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Fulton County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Fulton County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity balances of Fulton County, Kentucky as of June 30, 2002, and the revenues received and expenditures paid, and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 18, 2002 on our consideration of Fulton County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
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Members of the Fulton County Fiscal Court

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Fulton County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$124,004 To Protect Deposits

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 18, 2002

FULTON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Harold M. Garrison	County Judge/Executive
Billy Nelms, Jr.	Magistrate
Louis Roscoe Hutchins	Magistrate
James D. Black	Magistrate
Dennis Hulin	Magistrate

Other Elected Officials:

Richard L. Major, Jr.	County Attorney
Ricky Parnell	Jailer
Lesia LaRue	County Clerk
Sarah Johnson	Circuit Court Clerk
Robert Hopper	Sheriff
Mike Alexander	Property Valuation Administrator
Henry Callison	Coroner

Appointed Personnel:

Karen Argo	County Treasurer
Fonda Swain	Finance Officer
Dennis Warner	Road Supervisor
Tommy Hodges	911 Administrator
Chris Buckingham	Jail Administrative Assistant/Bookkeeper

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

FULTON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>
	<u>General</u>	<u>Debt Service</u>	<u>Enterprise</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash	\$ 1,822,285	\$ 276,421	\$ 32,406
Restricted Cash- Federal/FICA Withholding Account	18,627		
Total Assets	<u>\$ 1,840,912</u>	<u>\$ 276,421</u>	<u>\$ 32,406</u>
<u>Other Resources</u>			
Amounts to be Provided for In Future Years:			
Leasing Trust Principal Payments - Jail Annex #1	\$ 309,000	\$	\$
Leasing Trust Principal Payments - Jail Annex #2	681,102		
Jail Capital Lease Obligation - Bond Principal Payments	240,811		
1996 Refunding Revenue Bonds - Bond Principal Payments		1,463,579	
Total Other Resources	<u>\$ 1,230,913</u>	<u>\$ 1,463,579</u>	<u>\$</u>
Total Assets and Other Resources	<u><u>\$ 3,071,825</u></u>	<u><u>\$ 1,740,000</u></u>	<u><u>\$ 32,406</u></u>

The accompanying notes are an integral part of the financial statements.

FULTON COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

Totals
(Memorandum
Only)

.

\$ 2,131,112

.

18,627

.

\$ 2,149,739

\$ 309,000

681,102

240,811

.

1,463,579

.

\$ 2,694,492

.

\$ 4,844,231

The accompanying notes are an integral part of the financial statements.

FULTON COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

	Governmental Fund Types		Proprietary Fund Type
	General	Debt Service	Enterprise
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Leasing Trust Obligations:			
Jail Annex #1 -			
Principal Payments (Note 4)	\$ 309,000	\$	\$
Jail Annex #2 -			
Principal Payments (Note 4)	681,102		
Capital Lease Obligation:			
Bond Principal Payments (Note 5)	240,811		
1996 Refunding Revenue Bonds -			
Bond Principal Not Matured (Note 6)		1,740,000	
Federal/FICA Withholdings	18,627		
Total Liabilities	<u>\$ 1,249,540</u>	<u>\$ 1,740,000</u>	<u>\$</u>
<u>Equity</u>			
Retained Earnings:	\$	\$	\$ 32,406
Fund Balances:			
Reserved	9,880		
Unreserved	1,812,405		
Total Equity	<u>\$ 1,822,285</u>	<u>\$</u>	<u>\$ 32,406</u>
Total Liabilities and Equity	<u><u>\$ 3,071,825</u></u>	<u><u>\$ 1,740,000</u></u>	<u><u>\$ 32,406</u></u>

The accompanying notes are an integral part of the financial statements.

FULTON COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

Totals
(Memorandum
Only)

\$ 309,000

681,102

240,811

1,740,000

18,627

\$ 2,989,540

\$ 32,406

9,880

1,812,405

\$ 1,854,691

\$ 4,844,231

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES

FULTON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Types			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 3,801,180	\$ 644,312	\$ 621,331	\$ 1,475,220
Receipts - Jail Canteen	279,190			
Other Financing Sources:				
Transfers In	73,030	66,308		
Total Cash Receipts	<u>\$ 4,153,400</u>	<u>\$ 710,620</u>	<u>\$ 621,331</u>	<u>\$ 1,475,220</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 3,785,591	\$ 678,486	\$ 557,668	\$ 1,682,458
Expenditures - Jail Canteen	272,100			
Other Financing Uses:				
Kentucky Association of Counties Leasing Trust Obligation Jail Annex Principal	42,339			42,339
Kentucky Local Facility Construction Authority Revenue Bonds Principal	11,480			11,480
Transfers Out	73,030	6,722	66,308	
Bonds:				
Principal Paid	100,000			
Interest Paid	94,575			
Total Cash Disbursements	<u>\$ 4,379,115</u>	<u>\$ 685,208</u>	<u>\$ 623,976</u>	<u>\$ 1,736,277</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (225,715)	\$ 25,412	\$ (2,645)	\$ (261,057)
Cash Balances - July 1, 2001	<u>2,356,827</u>	<u>511,117</u>	<u>814,722</u>	<u>724,856</u>
Cash Balances - June 30, 2002	<u><u>\$ 2,131,112</u></u>	<u><u>\$ 536,529</u></u>	<u><u>\$ 812,077</u></u>	<u><u>\$ 463,799</u></u>

The accompanying notes are an integral part of the financial statements.

FULTON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES/RETAINED EARNINGS
For The Fiscal Year Ended June 30, 2002
(Continued)

General Fund Types	Capital Projects Fund Type	Debt Service Fund Type	Enterprise Fund Type
Disaster and Emergency Services Fund	Community Development Block Grant Fund	Capital Projects Corporation Fund	Jail Canteen Fund
\$ 15,324	\$ 854,326	\$ 190,667	\$ 279,190
		6,722	
\$ 15,324	\$ 854,326	\$ 197,389	\$ 279,190
\$ 12,653	\$ 854,326	\$	\$ 272,100
		100,000	
		94,575	
\$ 12,653	\$ 854,326	\$ 194,575	\$ 272,100
\$ 2,671	\$ 0	\$ 2,814	\$ 7,090
7,209		273,607	25,316
\$ 9,880	\$ 0	\$ 276,421	\$ 32,406

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH
FLows-PROPRIETARY FUND TYPE

FULTON COUNTY
STATEMENT OF CASH
FLOWS-PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Fund Type</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Cash Commissions On Vendor Receipts	\$ 31,372
Other Receipts	100
Payments to Suppliers	(5,943)
Payments for Entertainment	(3,363)
Other Payments	<u>(25,390)</u>
Net Cash Used By Operating Activities	<u>\$ (3,224)</u>
Net Decrease in Cash	\$ (3,224)
Cash and Cash Equivalents - Beginning	<u>7,546</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 4,322</u></u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	<u>\$ (3,224)</u>
Net Cash Used by Operating Activities	<u><u>\$ (3,224)</u></u>

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Fulton County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Capital Projects Corporation as part of the reporting entity.

The Capital Projects Corporation is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management has included the Capital Projects Corporation as a component unit, and the entity's financial activity was blended with that of the Fiscal Court.

Additional - Fulton County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Fulton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fulton County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Types

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Fulton County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Disaster and Emergency Services Fund.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Community Development Block Grant Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Capital Projects Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Fulton County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

5) Trust and Agency Fund Type

Trust and Agency Fund Type accounts for assets held in a trustee or agency capacity for others, and therefore cannot be used to support the county's own programs. The Fulton County Trust and Agency Fund Type includes the Jail Inmate Fund, which is maintained by the county jailer.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, deferred revenue, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets are not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Fulton County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Capital Projects Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit. For the purpose of the statement of cash flows, the county considers all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Fulton County Fiscal Court:

Fulton County Extension District
Fulton County Transit Authority
Fulton County Conservation District
Fulton County Library District

FULTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. The following are joint ventures in which Fulton County is a participant:

Fulton County Economic Development Partnership
 Senior Citizens, Incorporated
 Hickman-Fulton County Riverport Authority
 Ken-Tenn Airport Board
 Purchase Area Regional Industrial Authority, Incorporated

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$124,004 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2001.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 3. Deposits (Continued)

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county's name	103,434
Collateralized with surety bond	235,000
Uncollateralized and uninsured	<u>124,004</u>
Total	<u><u>\$ 562,438</u></u>

Note 4. Long-Term Debt

Jail Annex #1 and Jail Annex #2

The Fulton County Fiscal Court has entered into two leasing trust agreements with the Kentucky Association of Counties Leasing Trust. The first was entered into on July 17, 1992 and the second on January 30, 1998. The purposes of the leasing trusts were for the construction and use of the Fulton County Detention Facility Annex #1 and Annex #2. The interest rate for the leasing trust agreement for Annex #1 is a fixed rate of 5.25% and for Annex #2 is a variable rate, which is 4.0% for the current fiscal year. Total lease trusts principal amounts were \$415,000 and \$775,000, respectively. Lease principal and interest requirements due in the next five years and in five-year increments thereafter are:

Jail Annex #1

Fiscal Year Ended		
June 30	Interest	Principal
2003	\$ 18,807	\$ 14,000
2004	17,913	15,000
2005	16,982	15,000
2006	16,026	16,000
2007	15,007	17,000
2008-2012	57,589	100,000
2013-2017	<u>21,961</u>	<u>132,000</u>
Totals	<u><u>\$ 164,285</u></u>	<u><u>\$ 309,000</u></u>

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Long-Term Debt (Continued)

Jail Annex #2

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 31,803	\$ 30,686
2004	30,310	32,096
2005	28,748	33,571
2006	27,124	35,103
2007	25,405	36,726
2008-2012	98,520	210,542
2013-2017	42,358	263,556
2018	671	38,822
Totals	<u>\$ 284,939</u>	<u>\$ 681,102</u>

Note 5. Long-Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$943,147 of revenue bonds at various interest rates (6.25% through 10.375%), of which the county has agreed to pay \$355,082 principal and a proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2002, totaled \$240,811. Bond principal and interest requirements due in the next five years and in five-year increments thereafter are:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 15,601	\$ 12,240
2004	14,762	13,051
2005	13,868	13,916
2006	12,915	14,839
2007	11,897	15,824
2008-2012	41,676	96,352
2013-2015	7,666	74,589
Totals	<u>\$ 118,385</u>	<u>\$ 240,811</u>

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 6. Advanced Refunding of Courthouse Facilities Bond Issues

Capital Projects Corporation Fund 1996 Refunding Revenue Bonds

The Fulton County Capital Projects Corporation, an independent corporate agency and instrumentality of Fulton County, issued first mortgage refunding revenue bonds, series 1996, dated December 1, 1996, for the purpose of discharging the outstanding bonds of series 1990A, 1990B, and 1991 (collectively referred to herein as the "Prior Bonds"). The net proceeds thereof were used to complete, equip, and furnish the Court Facilities Project and annex which houses county government offices.

The corporation issued \$2,215,000 of refunding revenue bonds, the proceeds of which were used to discharge all prior bonds.

The Kentucky Administrative Office of the Courts has agreed to pay lease payments directly to the paying agent on behalf of the county as is required by the Use and Sublease Agreement between the county and the Administrative Office of the Courts dated December 1, 1996. If the payment from the Sublease Agreement is not sufficient to meet the principal and interest requirements of the bond, the county is contingently liable for the Administrative Office of the Court's payments.

Bond principal and interest requirements due in the next five years and in five-year increments thereafter are:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 89,245	\$ 105,000
2004	83,655	110,000
2005	77,675	120,000
2006	71,305	125,000
2007	64,675	130,000
2008-2012	210,940	760,000
2013	10,530	390,000
Totals	<u>\$ 608,025</u>	<u>\$ 1,740,000</u>

Note 7. Related Party Transactions

During fiscal year ended June 30, 2002, Fulton County purchased its petroleum products from Fields Petroleum, Incorporated. The magistrate from District 4 was employed by Fields Petroleum, Incorporated during this same time period. While this particular magistrate abstained from voting on the oil and gas bids, the fiscal court awarded this bid to Fields Petroleum for fiscal year ended June 30, 2002. Total purchases made for this fiscal year from Fields Petroleum, Incorporated amounted to \$13,902. The county's ethics code allows this transaction since the magistrate did not participate in the bid process.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 8. Industrial Revenue Bonds

On May 15, 2001, the Fulton County Fiscal Court adopted a resolution approving the issuance of Industrial Building Refunding Revenue Bonds for the Speed AG Services LLC, Inc. project (\$550,000). Such bond issue does not constitute a general debt, liability, or moral obligation of Fulton County. Accordingly, these financial statements do not include any assets or liabilities related to the issuance of this bond issue.

Note 9. Insurance

For the fiscal year ended June 30, 2002, Fulton County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Fulton County Scattered Site Phase II Project Grant

In May 2001, Fulton County Fiscal Court was awarded a Community Development Block Grant for \$1,000,000 from the United States Department of Housing and Urban Development for the rehabilitation and restructuring of existing housing structures noted in the grant agreement. The Department for Local Government, Commonwealth of Kentucky, oversees these block grant funds. During fiscal year ended June 30, 2001, Fulton County had received grant funds of \$29,970 and expended grant funds of \$29,970. During this fiscal year, Fulton County had received grant funds of \$854,326 and disbursed grant funds totaling \$854,326. The unexpended grant fund balance as of June 30, 2002 is \$115,704.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

FULTON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Types</u>			
General Fund	\$ 710,148	\$ 644,312	\$ (65,836)
Road and Bridge Fund	705,368	621,331	(84,037)
Jail Fund	1,514,634	1,475,220	(39,414)
Disaster and Emergency Services Fund	16,490	15,324	(1,166)
<u>Capital Projects Fund Type</u>			
Community Development Block Grant Fund	<u>1,000,000</u>	<u>854,326</u>	<u>(145,674)</u>
Totals	<u>\$ 3,946,640</u>	<u>\$ 3,610,513</u>	<u>\$ (336,127)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,946,640
Add: Budgeted Prior Year Surplus			1,852,064
Less: Other Financing Uses			<u>(58,819)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 5,739,885</u>

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SCHEDULE OF OPERATING REVENUE

FULTON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Types	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 468,354	\$ 468,354	\$	\$
In Lieu Tax Payments	33,030	33,030		
Excess Fees	6,920	6,920		
Licenses and Permits	440	440		
Intergovernmental Revenues	2,954,176	1,922,250	854,326	177,600
Charges for Services	76,436	76,436		
Miscellaneous Revenues	173,392	173,392		
Interest Earned	88,432	75,365		13,067
Total Operating Revenue	<u>\$ 3,801,180</u>	<u>\$ 2,756,187</u>	<u>\$ 854,326</u>	<u>\$ 190,667</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

FULTON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 635,649	\$ 482,423	\$ 153,226
Protection to Persons and Property	1,494,930	1,417,092	77,838
General Health and Sanitation	3,000	1,264	1,736
Social Services	4,800	2,261	2,539
Recreation and Culture	16,000	4,720	11,280
Transportation Facilities and Services	10,000	3,464	6,536
Roads	663,271	418,815	244,456
Bus Services	13,820	13,820	
Other Transportation Facilities and Services	22,144	17,673	4,471
Debt Service	80,681	59,121	21,560
Capital Projects	208,105	44,917	163,188
Administration	1,587,485	465,695	1,121,790
Total Operating Budget - General Fund Types	\$ 4,739,885	\$ 2,931,265	\$ 1,808,620
Other Financing Uses:			
Kentucky Association of Counties			
Leasing Trust Obligation Jail Annex			
Principal	42,339	42,339	
Kentucky Local Facility Construction			
Authority Revenue Bonds			
Principal	11,480	11,480	
Transfers to Capital Projects			
Corporation Fund	5,000	6,722	(1,722)
TOTAL BUDGET - GENERAL FUND TYPES	<u>\$ 4,798,704</u>	<u>\$ 2,991,806</u>	<u>\$ 1,806,898</u>

FULTON COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

<u>Expenditure Categories</u>	<u>CAPITAL PROJECTS FUND TYPE</u>		
	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
Capital Projects	<u>\$ 1,000,000</u>	<u>\$ 854,326</u>	<u>\$ 145,674</u>
TOTAL BUDGET - CAPITAL PROJECTS FUND TYPE	<u><u>\$ 1,000,000</u></u>	<u><u>\$ 854,326</u></u>	<u><u>\$ 145,674</u></u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Harold M. Garrison, Fulton County Judge/Executive

Members of the Fulton County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Fulton County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 18, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Fulton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$124,004 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fulton County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 18, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Harold M. Garrison, Fulton County Judge/Executive

Members of the Fulton County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Fulton County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Fulton County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Fulton County's management. Our responsibility is to express an opinion on Fulton County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fulton County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Fulton County's compliance with those requirements.

In our opinion, Fulton County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Fulton County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Fulton County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 18, 2002

FINDINGS AND QUESTIONED COSTS

FULTON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Fulton County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Fulton County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Fulton County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Fulton County reported in Part C of this schedule.
7. The program tested as a major program was the Community Development Block Grant (CFDA #14.228).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Fulton County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$124,004 To Protect Deposits

On August 31, 2001, \$124,004 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Harold M. Garrison's Response:

We will talk to the President of Citizens' Bank and get it taken care of even if we have to move the money.

FULTON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2002
(Continued)

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- The County Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$87,940 To Protect Deposits

This comment has not been corrected and is repeated above.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FULTON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and <u>Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grant (CFDA #14.228)	B-00-DC-21-0001(020)	\$ 854,326
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet:		
Local Law Enforcement Grant (CFDA #16.592)	LLEB-2952/00	2,725
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grant- Coordinator Salary (CFDA #83.503)	N/A	<u>7,767</u>
Total Cash Expenditures of Federal Awards		<u>\$ 864,818</u>

FULTON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Fulton County, Kentucky and is presented on a modified cash basis of accounting.

Note 2 - As required by the Community Development Block Grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

Note 3 - Community Development Block Grant - Major Program

A major federal program is defined as a federally funded program expending at least \$300,000 of federal funds within one fiscal year. The Fulton County Fiscal Court was awarded a Community Development Block Grant in the amount of \$1,000,000 in May 2001. During the fiscal year 2001-2002, the Fulton County Fiscal Court expended \$854,326 and this qualifies as a major program under OMB Circular A-133.

